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SUBJECT: SONORA STATE OFFICIALS SEE 5 PERCENT ECONOMIC GROWTH IN 2006, HIGH INVESTMENT PROSPECTS

REF: HERMOSILLO 0005 (NOTAL)

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¶1. (U) Summary. Sonora economic officials are projecting that the state's economic growth rate for 2006 will be 5 percent. This would match 2005, when the Ford Company's major expansion of its automobile assembly operations in Hermosillo gave Sonora a major boost. Plans for a new LNG terminal in Puerto Libertad and an extended gas pipeline network throughout the state, the officials said, could have a similar impact. End Summary.

¶2. (U) On January 9, Consulate personnel (PO, Vice Consul Storrow, Assistant Escobosa) were invited to an introductory meeting with Ricardo Platt, Sonora State Secretary of Economy, Ivan Manuel Alvarez, his chief of staff, and Ignacio Escalante Sanders, Director General of the Economic Development Council for Sonora (COPRESON). Discussion focused on Sonora initiatives to promote investment, the current state of the state's economy, and economic prospects for 2006.

ENCOURAGING INVESTORS IN SONORA

¶3. (U) Platt, who came to his first government job in August 2005 from the construction business, mentioned industry (including automobiles), new investment, local small business, and housing for the Sonora workforce as primary areas his office supports. His responsibilities encompass COPRESON and the Housing Institute for Sonora (INVES), organizations funded by public budgets but largely run by private sector experts. He was especially keen to talk about "Soft Landing," an investor-friendly operation within his purview funded by the state of Sonora. Potential investors - most of whom are Americans, he said - could use the office space and computers, and draw on Soft Landing's staff for information as they explored possibilities in the state. Escalante, who travels frequently to Asia to develop business contacts for the state, said that Japanese investors especially were showing increasing interest in Sonora.

THE FORD COMPANY PRECEDENT

¶4. (U) The Sonora officials described the major economic impact in 2005 of the Ford Company's decision to produce several automobile models -- the Fusion, Mercury Milan, and (for the first time outside the U.S.) a Lincoln (Zephyr) -- in Hermosillo. This mega-project brought in dozens of American essential "first and second tier" suppliers. Tens of thousands of jobs were created and some local businesses have flourished as service providers. Platt said that the decision was competitive and Hermosillo had won on the basis of Ford's earlier experience here with a good work force and a generous incentive package fully supported by the Sonora government and its pro-business governor, Eduardo Bours Castelo.

LNG TERMINAL MEGA-PROJECT~AND RUMORS OF A NUCLEAR PLANT

15. (U) Platt and Escalante were optimistic that Sonoran economic growth would continue in 2006 at the 5 percent rate achieved in 2005, and generate another 30 thousand new jobs. Asked if there were other mega-projects on the horizon, they spoke of a USD 1.2 billion project to construct a LNG terminal at Puerto Libertad, as well as a pipeline network that in 2007 would bring gas as a power-generating source to Hermosillo, Navojoa and other cities in Sonora for the first time. U.S. pipeline company El Paso and an unnamed energy partner are close to finalizing an agreement on it. Platt said this project addressed the state's strategic need for reliable power generation for further development. He claimed that Sonora's government had carefully considered the environmental impact and had concluded that the terminal offered a balanced approach, one which would even move the state away from oil as a power source and the current risk of a major polluting incident at Guaymas or other points in the Sea of Cortez where oil transport ships stop. (Note: In December 2005, media reports circulated that the National Institute for Nuclear Research (ININ) had proposed construction of a nuclear plant just south of Hermosillo. This provoked NGO criticism and led Governor Bours to state that he would never contemplate such a "crazy" project without public hearings. The issue faded after it became clear that the idea of a nuclear plant in Sonora is still very notional. End note.)

OTHER ECONOMIC DEVELOPMENTS~AND WATER, PRECOS

16. (U) Platt also listed 18 industrial park projects underway in Sonora, expected strong tourism growth, and the hopes of Guaymas officials to rapidly expand port infrastructure and existing aerospace manufacturing capacity as positive prospects. Asked whether Hermosillo's water shortages were a potential obstacle to further development, Platt said that Sonora was careful to recruit investors for businesses that are not heavily dependent on water. He noted that Hermosillo is enforcing restrictions on water consumption but said that no company had ever rejected

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Hermosillo as a business site on that basis. While acknowledging the need for drug searches, the Sonora officials also spoke of the economic threat posed by long delays at the army inspection points (PRECOS) - especially at the Benjamin Hill PRECOS -- on the highway north to the U.S. border crossing at Nogales (reftel). Platt said that Governor Bours would meet January 10 in Mexico with the Secretary of National Defense to discuss the matter, and that Sinaloa officials were coordinating their complaints with Bours'. Platt commented that, while Mexico City was not always fully responsive to the concerns of northern Mexican states, some reasonable solution probably would be worked out.

17. (U) This report has been cleared with American Consulate Nogales.
CLARKE